Doing Business In Guatemala: The 2008 Country Commercial Guide for U.S. Companies

Chapter 1: Doing Business in Guatemala

Market Overview Return to top

Guatemala is the northernmost country in Central America with Mexico to the north and west, Belize and the Atlantic Ocean to the east, Honduras and El Salvador to the southeast and the Pacific Ocean to the south. Famed for its volcanoes, textiles, Mayan ruins, and temperate climate in the highlands, Guatemala is at the center of a large regional market for U.S. goods and services.

Guatemala is an excellent market for U.S. products. Guatemalan GDP reached an estimated USD 33 billion in 2007 and exports from the United States to Guatemala exceeded USD 4.6 billion. U.S. products and services enjoy high name recognition in Guatemala, and U.S. firms have a good reputation in the Guatemalan marketplace. As a result, more than one third of all Guatemalan imports come from the United States. Guatemala can also be an attractive place for foreign investment, despite some persisting challenges. With a population of around 13.3 million, it is the largest country in Central America and accounts for more than one-third of the region's GDP. The capital, Guatemala City, has a population of over 2.5 million and features first-class hotels and restaurants. La Aurora International Airport, which serves Guatemala City, has recently been renovated and is located just minutes from the major business and financial areas.

Market Challenges Return to top

After a four-year presidential term of Oscar Berger of the Grand National Alliance (GANA) coalition, Alvaro Colom of the National Unity for Hope (UNE) party won the November 4, 2007 presidential elections and took office January 14, 2008. Congressional elections at the same time increased UNE's seats in the congress but fell short of a majority. Improving public health, security and education are the top priorities for the new government as well as expanding rural development. The government seeks to increase exports and attract investment, particularly in tourism and manufacturing. The new government has said that they plan to increase tax collection by simplifying tax procedures, create a tax intelligence service to strengthen customs collections, reduce corruption and evasion at ports, and increase audits

Colom's administration is expected to maintain good relations with the United States while diversifying exports to Asia and Europe and the rest of Central America. The United States and Guatemala emphasize a shared agenda on strengthening democratic institutions, promoting trade, and improving the rule of law.

Violent crime remains a serious challenge. Corruption, impunity, worker rights, protection of intellectual property, and education continue to be other key challenges for the government. On January 11, 2008, Guatemala and the United Nations established the joint International Commission Against Impunity in Guatemala (CICIG). CICIG is charged with helping Guatemala to investigate and prepare prosecution of organized crime.

Most hurdles to exporting to and investing in Guatemala are bureaucratic in nature. The government is aware of these problems and works to overcome them. There are no exchange controls and the currency, the Quetzal, currently trades in a fairly stable range of 7.6-7.8 quetzals to one U.S. dollar. Currency is bought and sold freely in national markets. There are no restrictions on repatriation of profits by foreign businesses.

Market Opportunities Return to top

The signing of the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) by the U.S. Trade Representative Robert Zoellick and ministers from Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua, on August 5, 2004, represented a giant step toward greater economic integration between the U.S. and these Central American nations. The Agreement, ratified by the U.S. and all other participating countries, provides for the immediate elimination of tariffs and quotas on more than 80 percent of U.S. exports, while tariffs on the remaining 20 percent will be phased out over the next 10 to 15 years. President Bush signed the implementing legislation on August 2, 2005. Guatemala implemented July 1, 2006.

With the inclusion of the Dominican Republic, CAFTA-DR is the second largest Latin American market for U.S. goods, surpassed by only Mexico. Along with reduced trade barriers, CAFTA-DR loosened restrictions that have historically locked U.S. firms into exclusive, often inefficient, distribution arrangements. CAFTA-DR member countries have further promised increased transparency in customs dealings, anti-corruption measures in government contracting and procurement, and strong legal protections for U.S. investors. Legislation and regulation on these topics are moving forward in the member countries. Costa Rica (the last signatory) was granted additional time through October 2008 to pass implementing legislation and regulations.

Regionalization has quickly become a fact of life for doing business in Central America. Factories and distribution facilities have been and continue to be designed to serve a regional market. Furthermore, rarely does a U.S. businessperson visit just one Central American country. New investors weigh the advantages that each country offers as they look to decide where to establish new plants. Regional managers are becoming the norm, with responsibilities for multiple countries within the Central American marketplace. Trade between the countries of Central America has also increased dramatically over recent years, a trend that was accelerated with CAFTA-DR. President Bush visited Guatemala March 11-12, 2007 during a five country visit to Brazil, Uruguay, Colombia, Guatemala, and Mexico. Other high level visits have included Agriculture Secretary Johanns in September 2007 and HHS Secretary Leavitt and senior officials from the delegation of Commerce and Education for the inauguration ceremonies in January 2008. Major investments in Guatemala by U.S. firms Wal-Mart, Citicorp and GE Finance also highlight the opportunities presented by CAFTA-DR. Foreign direct investment grew significantly in 2006 and 2007.

The Guatemalan market is competitive. Guatemalan businesspeople are price-sensitive and expect good after-sales service and support. They are accustomed to doing business with U.S. firms and many Guatemalans travel regularly to the United States and speak English.

The Guatemalan economy has expanded rapidly over the last several years. Real GDP grew by an estimated 5.7 percent in 2007. Inflation was 8.75 percent in 2007 mostly due to increasing oil and food prices. Remittances, almost entirely from the U.S., are an important source of foreign income. More than one million Guatemalans living in the US, the majority illegally, sent an estimated USD 4 billion, equivalent to approximately 12 percent of GDP in remittances in 2007.

Commodity prices for traditional Guatemalan exports, such as coffee and sugar, which had been relatively low in recent years is experiencing a strong upswing. Growth has been bolstered by non-traditional exports, such as assembled clothing, winter fruits and vegetables, furniture and cut flowers. The non-traditional sector, in particular, has provided more jobs and increased income for tens of thousands of people over the past ten years. Tourism has also developed significantly and should continue to grow. Remittances from Guatemalans living abroad, mainly in the United States, have become a major income stream for the country. The textile industry, though a major employer, has seen shrinkage partially due to staggered implementation of CAFTA-DR for all the countries.

The government of Guatemala welcomes foreign investment and generally accords foreign investors national treatment. There are few legal or regulatory restrictions placed on foreign investors. At the same time, the country has a long way to go to make Guatemala truly business and investment friendly.

Market Entry Strategy Return to top

If the government continues to work toward economic reform, including more of its citizenry in the economy, maintaining free trade and liberal markets, as well as providing personal and investment security, U.S. companies can expect a growing market in Guatemala. The reality in Central America and in Guatemala today is that there are problems: corruption, security issues, poverty, and low education levels top the list. But there is also strong economic growth, relative stability, real market opportunities and substantial U.S. exports, in a dynamic market that is close to the U.S. and growing. Regional integration and CAFTA-DR will spur investment, growth, trade, and increased market opportunities for U.S. firms.

Return to table of contents

on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.